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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 003237

SIPDIS

TREASURY FOR SONAL SHAW AND MATT TURNER; NSC FOR CATHY BYRNE

E.O. 12958: DECL: 12/19/2011

TAGS: [ECON](#) [EFIN](#) [NI](#)

SUBJECT: NIGERIA: PARIS CLUB BILATERALS NOT READY BY XMAS:  
MAYBE BY SPRING BREAK

REF: A. (A) STATE 210581

[B](#). (B) ABUJA 2073

[C](#). (C) STATE 140051

[D](#). (D) ARIKAWA/SNOW LETTER OF DECEMBER 12  
(FORWARDED BY FACSIMILE AND POUCH)

[1](#). Classified by Ambassador Howard F. Jeter; Reasons 1.5 (b) and (d).

[2](#). (C) Summary: The Nigerian Debt Management Office (DMO) has not concluded any of its 15 pending Paris Club bilateral agreements. The DMO has creatively used the comparability clause in the 2000 Agreed Minute to play creditors against each other in an attempt to gain grace periods, the right to designate how payments are credited, and the lowest interest rates. This tactic has delayed negotiations, including those with the USG. Embassy Officers have suggested to DMO Director-General Akin Arikawe and his boss, Chief Economic Advisor Magnus Kpakol, that they conclude the bilateral pacts as quickly as possible, though that may not happen until the second quarter of 2002. However, the GON negotiating tack might not be theirs to change as it seems directed by the President. Obasanjo's personal attention to the negotiations indicates the issue is as much political as it is economic. The numerous unusual requests made by the GON represent his attempt to secure creditor treatment of Nigeria as a special case. End Summary.

[3](#). (SBU) EconOffs met December 12 with Debt Management Office Director-General Akin Arikawe to receive the formal response (Ref D) to USG comments on the draft bilateral debt rescheduling agreement (Ref A). Econoffs also conveyed the contents of Ref C that the USG would not support a meeting with the Paris Club until Nigeria completed bilateral Paris Club agreements and had an IMF program in place. Arikawe said Nigeria wanted the Paris Club meeting to inform the creditor countries that Nigeria would be unable to meet its \$3.4 billion debt payments for 2002 because the GON FY 2002 budget had allocated only \$1.5 billion toward those obligations. Arikawe wanted to discuss how to apportion the money set aside in the FY 2002 budget for Paris Club debt. He also noted that Nigeria could not pay any of the \$290 million Paris Club debt that accrued from August to December 31, 2001.

[4](#). (SBU) The formal GON response to Ref C includes the following highlights. The original letter (Ref D) has been faxed and pouched to EB/Monetary Affairs.

-- The DMO's debt figures are now fully reconciled with USG figures.

-- The GON asks that Article IV, Paragraph 4 be deleted because there is currently no post cut-off debt not included in the Agreed Minute.

-- The GON asks that payments that fall due on a non-business day not accrue additional interest on that day (Annex G, Paragraph B.2).

-- The GON requests a 30-day grace period before the accrual of additional interest, particularly because the GON tends to use third parties to effect payments, which sometimes causes a delay. (Other creditors, according to Arikawe, have granted Nigeria grace periods between 15 and 30 days.) (Annex G, Paragraph E)

-- The GON wants to determine how payments should be applied, i.e., whether payments would be applied first to the principal and secondly to late fees. (EconOffs explained that standard accounting procedures do not allow for application of payments to interest before principal.) (Annex

G, Paragraph B.3)

-- The GON wants interest computed on a 360-day year, 12/30-day month basis. (Annex G, Paragraph D.)

-- The GON asserts that the debts covered by this agreement are now governmental, not commercial, and therefore should be immune from suit, judgement and/or execution.

-- The GON requests a redraft of Annex G, Paragraphs H (2) and (3) to have the courts decide who pays legal expenses in disputes under the bilateral agreement.

15. (SBU) Arikawe explained the delayed GON response to USG proposals was the result of Nigeria's comparability clause negotiating strategy. The DMO is first negotiating specific items with creditors with whom the GON feels it will receive the most favorable terms. The GON will then use the comparability clause to argue for more favorable treatment in all its other agreements.

16. (SBU) Nigeria has not completed any of the fifteen bilateral agreements. Arikawe hopes to complete bilateral agreements with Austria, Switzerland and the Netherlands before December 31, 2001. He also anticipated that the agreement with Germany would soon be signed; the last remaining issue centered on the interest rate, he said. Arikawe explained that President Obasanjo had rejected the German agreement because the interest rate was too high (5.7 percent versus the desired 5.3-5.4 percent). (Comment: We understand that as of December 14, Germany has agreed to 5.3 percent with an additional .5 percent administrative interest charge. End Comment.)

16. (C) Comment: The Mission is concerned by this three-month delay. The DMO, instead of using the bilateral agreements as technical stepping stones to comprehensive debt relief, appears determined to negotiate each agreement as an end unto itself. After telling Arikawe that such delaying tactics could cost Nigeria goodwill in the Paris Club, EconOff brought the issue up with Chief Economic Advisor (CEA) Magnus Kpakol on December 14. Kpakol promised to meet with President Obasanjo soon to discuss how to conclude the agreements more quickly. Kpakol believed, however, that the agreements would not likely be completed before March 2002.

17. (C) President Olusegun Obasanjo's personal attention is focused on this process, which means the issue has become just as much political as it is economic. Obasanjo's estimation of Nigeria's and his place in the world indicate he believes Nigeria should receive special handling and not be treated as any other developing world debtor by Paris Club members. Consequently, the unorthodox requests from Arikawe fit GON orthodoxy -- they want debt relief. The numerous requests, in a certain sense, represent "debt relief through the back door." Their aggressive negotiating positions are not taken just to reduce payments -- they fit Obasanjo's design to cajole his creditors to treat Nigeria as a special case. End Comment.  
Jeter